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30 July 2024

Submissions
Electricity Authority
PO Box 10041
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by email: DDA@ea.govt.nz
(subject line "Consultation - DDA")

Submission on follow-up consultation on proposed changes to the Default Distributor Agreement template

Thank you for the opportunity to provide feedback on the Electricity Authority's (the Authority) Follow-up consultation – proposed changes to the default distributor agreement (the Consultation Paper) dated 2 July 2024.

We are concerned that the Authority is forging ahead with its planned changes despite well-reasoned and compelling grounds not to. We are a co-operative, owned by our customers. Our customers are at the centre of all decisions we make, and we provide our response to the Authority's consultation with the best interests of our customers in mind. Most distribution businesses are owned by the customers they serve through one mechanism or another, and ask that you take account of the responses that the industry is providing.

We submit that the proposed changes are not in the long-term interests of consumers and will not lead to the reduced distribution charges as claimed in the Consultation Paper.

Refund of charges for extended outages

The service we provide for customers is an asset infrastructure investment, not a delivered electricity product. The most efficient service is one that is available the vast majority of the time, but does have occasional failures, typically caused by forces outside of our control.

We balance the trade-off between cost and quality, and we consult with customers extensively to get this balance right. We aim to avoid investing in reliability where the costs of that investment would exceed the cost impact of outages on our customers.

With this approach, our network is not over-engineered, but rather designed to fail from time-to-time, and for power to be restored as those failures are addressed.

A range of reasons why it is not appropriate to refund charges during these occasional failures were set out in our previous submission. Although the Consultation Paper notes these reasons, it does not address them, and the Authority appears to have instead reinforced the change with a requirement to proactively identify situations where a refund might be provided. We elaborate as follows:

Who should pay?

The Authority requires us to follow pricing principles that include cost-reflective and area-based approaches. When we make an investment in infrastructure, the costs of that infrastructure continue, including during fault conditions that might last more than 24 hours.

The proposed approach would have us provide a refund to affected customers and then:

- if a whole area is affected by that outage, recover the shortfall from that area two years later with an additional use-of-money interest allowance, or
- if individual customers are affected, recover the shortfall created from the neighbours of the affected customers (again, with an additional use-of-money interest allowance).

An outage is often caused by a localised impact (for example, a weather event affecting the network in an area). During such an outage we must continue the capacity reservation throughout our system for affected customers (and this includes the national grid capacity and costs). We can't remove assets or eliminate our costs. We can't utilise the unused capacity to serve other customers. It would be inequitable for us to direct these costs to customers that do not make use of that capacity, which is what the proposed amendment will have us do.

This also applies where customers in an area might be prevented from returning to their premise and using our service as a result of a Civil Defence order. In these situations, our network must remain in place and the capacity reservation must continue (albeit, unused). While we understand the desire to provide these customers with relief, the alternative I to charge other customers for this cost, and we do not consider that to be an equitable approach.

No underlying quality incentive

Including a mechanism to provide a refund within a framework where the cost of that refund is recovered from other customers, or recovered later, will not provide any underlying quality incentive for distribution businesses. It will not deliver the quality improvement that the Authority claims, yet it will carry an implementation cost and an ongoing cost to administer the refunds.

A better approach to provide targeted redress for customers that are affected by outages might be to augment the Commerce Commission's disclosure requirements to include reporting on worst affected electrical feeders, or most affected customers. This will ensure that customers with a service level that falls below the ideal level will receive appropriate attention.

Net cost to customers

Within an area, all supplies have an approximately equal chance of being impacted by extended outages each year, and over the lifetime of a power supply, all can expect to have a similar number of these events.

Imposing a mechanism that refunds some customers one year and others another year provides no net benefit to those customers.

However, operating the refund mechanism itself will represent a cost that will ultimately be borne by those customers. This renders the proposed mechanism inefficient.

The default price path already has an effective quality incentive

The price-quality regulation imposed by the Commerce Commission includes a quality incentive scheme that assesses the duration of outages. The incentive is linked to the value of lost load for customers and provides a very clear incentive for us to improve reliability.

For the new regulatory period beginning 1 April 2025, the quality incentive scheme is proposed to be linked to a value of lost load of $35.37/kWh. As an incentive for distributors to reduce or avoid outages, for an average residential customer, this equates to $870 for a 24 hour outage.

This incentive scheme appropriately links the magnitude of the incentive to the value impact on the customer. By comparison, the Authority's proposed mechanism will return just 75 cents to a residential customer affected by a 24 hour outage (or less, as the proposed mechanism allows electricity retailers to retain up to half the refund). While costly to administer, the proposed mechanism does not provide any substantive redress for the impact, and customers might rightly find the small value of payment offensive.

Prevents individual cost quality trade-offs

The Electricity Authority sets pricing principles against which we must assess our alignment. These pricing principles include that prices should:

> "reflect differences in network service provided to (or by) consumers" and
>
> "enable price/quality trade-offs".

There are many situations where we can provide a customised service level, and this can often involve a lower security supply that avoids the need for network reinforcement in exchange for lower up-front and/or ongoing charges.

In simple terms, this often means providing an "N" security supply, where a single fault will cause an outage, and power will remain off until the fault is repaired. This approach avoids the need to install rarely used back-up assets that would allow us to maintain supply during a fault, or to restore supply via an alternative route while repairs are caried out.

Customers with lower value loads (that can endure outages without significant financial impact) or those that can address their own reliability needs (through energy alternatives, battery storage or back up generation) can take advantage of these options. In these situations, longer or more interruptions will be an expected outcome of the customised service level.

However, we will be unable to offer these alternatives to customers if we are unable to charge the affected customer when the expected outages do occur. We believe that this restriction in customer choice will be considered negatively in the market.

Registry maintenance proposal

The Authority's new proposal that distributors should maintain the registry energisation status to reflect faults would add a significant layer of complexity to our current systems. It would require extensive system changes for distributors and have implications for trader maintenance interactions as well (as their systems are set to maintain the status and our changes would create a discrepancy in their processes).

The registry has been carefully arranged so that only one party is responsible for maintaining each event type. The energisation status event was a reluctant exception, where both distributors and traders maintain the information, and to address this, clear boundaries have been put in place so that distributors maintain the status only at the very beginning and very end of the lifecycle of an ICP.

The proposal cuts across this, and creates a situation where both distributors and traders would be responsible for maintaining and updating the status at the same time. This will inevitably create issues as trader and distributor systems fight to maintain the status information so that it is accurate.

It may also have implications for the reconciliation system, as the proposed delay between the fault period and the inactive status (to align with the full day resolution supported by the registry) would mean that meters show consumption on days where the status is inactive.

Alternatives

The Consultation Paper appears to focus on implementation issues, without addressing the issues raised in previous consultation responses regarding the rationale for such an approach. As such, we are concerned that the Authority has already decided to apply this change. If it does go ahead, we suggest:

- A refund "claim" approach should be retained, as this will focus the payment on situations where there is a perceived need, and reduce the administrative burden of assessing and applying what could be vast numbers of very small refunds.
- The outage period for a refund be extended from the 24 hours proposed to three complete days. This would then capture outages that extend beyond the durations in our security standard.
- Excluding larger commercial and industrial customers, where asset investments are more significant and often dedicated, they are often selected by the customer (often choosing a less secure option), and the related costs should not fall to other customers. This is also the category where we are more likely to be able to accommodate customers' specific cost/quality trade-offs that would otherwise be prevented by the proposed mechanism.

Use of money adjustment

We accept the Authority's assertion that:

> "a positive use of money adjustment is necessary to avoid an incentive on the parties to a distributor agreement to shift costs onto each other by treating each other as a bank."

However, we remain concerned with the added complexity and implementation costs associated with the inclusion of a use of money adjustment. We observe that the wash-ups we apply are very small in magnitude compared to the current month's charges, and the proposal appears to be an expensive solution to a perceived problem. Individual wash-up amounts are often only a few hundred dollars, and, in these situations, the use of money adjustment proposed will amount to just a few dollars, with each invoice requiring up to six separate calculations.

For our situation, with the exception of rare occasions where a trader might not provide any information, all estimates used in the billing process are estimates that are generated by traders. As such, we are the party that is exposed to the risk of costs being shifted to us, yet we do not seek the protection that the Authority is moving to impose upon us.

We are conscious that the proposal and complexity it carries will drive further costs into our billing process, and customers will ultimately bear the burden of this additional cost. For our situation, we expect that this cost will easily exceed any benefit from enhanced attention to setting billing estimates that the use of money adjustment would drive.

If the Authority is determined to proceed, perhaps it could specify a de minimis below which a use of money adjustment would not need to be applied. To be effective, the de minimis would need to be set on a basis that does not require the actual calculation of the adjustment, which could be:

- the wash-up is for a period more than 3 months prior to the current month's charges, and
- the wash-up amount exceeds $20,000.

With this approach we could manually assess and apply a use of money adjustment outside our normal billing processes, and only do this where the adjustment is a material amount.

Concluding remarks

Thank you again for the opportunity to provide feedback. If you have any queries regarding these comments, please feel free to contact me on 027 248 8614 or at anisbet@eanetworks.co.nz.

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Pricing Manager